FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF COMMUNITY HEALTH

October 1, 1999 through September 30, 2001

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Report Number:
39-100-01

Including the Provisions of the Single Audit Act
October 1, 1999 through September 30, 2001

Department of Community Health (DCH)

Released:
June 2002

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules and Financial Statements:

Auditor's Reports Issued

We issued an unqualified opinion on DCH's General Fund financial schedules and on the Hospital Patients' Trust Fund financial statements.

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Internal Control Over Financial Reporting

We identified 2 material weaknesses in DCH's internal control over financial reporting (Findings 1 and 2). We also identified other reportable conditions (Findings 3 through 8).

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Noncompliance Material to the Financial Schedules or Financial Statements

We did not identify any instances of noncompliance applicable to the financial schedules or financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs as major programs and issued 5 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 9 through 12).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 9 through 12).

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Systems of Accounting and Internal Control:
We determined that DCH was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

CFDA Number	***Program Title***	***Compliance Opinion***
93.767	State Children's Insurance Program (CHIP)	Unqualified
93.778	Medicaid Cluster	Unqualified
93.917	HIV Care Formula Grants	Unqualified
93.940	HIV Prevention Activities - Health Department Based	Unqualified
93.994	Maternal and Child Health Services Block Grant to the States	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at:
www.state.mi.us/audgen/

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A
Auditor General

James S. Neubecker, C.P.A., C.I.A., D.P.A.
Executive Deputy Auditor General

Michael J. Mayhew, C.P.A.
Deputy Auditor General for Audits

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 28, 2002

Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 1999 through September 30, 2001.

This report contains our report summary; our independent auditor's reports on the financial schedules and on the financial statements; and the DCH financial schedules and the Hospital Patients' Trust Fund financial statements, notes to the financial schedules and financial statements, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains DCH's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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TABLE OF CONTENTS

DEPARTMENT OF COMMUNITY HEALTH

INTRODUCTION

INDEPENDENT AUDITOR'S REPORTS, FINANCIAL SCHEDULES, AND FINANCIAL STATEMENTS

SUPPLEMENTAL FINANCIAL SCHEDULES

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OTHER SCHEDULES

GLOSSARY

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

April 12, 2002

Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

We have audited the accompanying schedule of General Fund revenue and transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Community Health for the fiscal years ended September 30, 2001 and September 30, 2000. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1c, the accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for the Department of Community Health's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's

General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and transfers and the sources and disposition of authorizations of the Department of Community Heath for the fiscal years ended September 30, 2001 and September 30, 2000, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

April 12, 2002

Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

We have audited the accompanying statement of fiduciary net assets of the Hospital Patients' Trust Fund, Department of Community Health, as of September 30, 2001 and September 30, 2000 and the related statement of changes in fiduciary net assets for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1c, the accompanying financial statements present only the Hospital Patients' Trust Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its private purpose trust funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hospital Patients' Trust Fund as of September 30, 2001 and September 30, 2000 and the results of its operations for the

fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF COMMUNITY HEALTH
Schedule of General Fund Revenue and Transfers
Fiscal Years Ended September 30

	2001	2000
REVENUE		
Taxes	$ 54,004,884	$ 59,024,686
From federal agencies	4,639,462,020	4,157,890,446
From local agencies	23,144,261	24,843,395
From services	25,361,035	26,289,524
From licenses and permits	2,353,201	2,457,825
Special Medicaid reimbursements	1,155,373,802	1,059,343,027
Miscellaneous	82,260,616	57,652,585
Total Revenue	$ 5,981,959,818	$5,387,501,488
TRANSFERS		
From Compulsive Gaming Prevention Fund	$ 2,984,000	$ 2,316,333
From Senior Care Respite Fund	1,675,748	1,702,655
From Gifts, Bequests, and Deposits Investment Fund	728,603	524,530
Total Transfers	$ 5,388,352	$ 4,543,518
Total Revenue and Transfers	$ 5,987,348,170	$5,392,045,006

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	2001	2000
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	$ 2,681,899,976	$ 2,640,034,219
Balances carried forward	298,718,887	54,329,358
Restricted financing sources	6,469,216,721	5,880,849,608
Less: Intrafund expenditure reimbursements	(70,746,944)	(67,106,212)
Expenditure credits (Note 2d and Note 5b)	(421,931,138)	(449,033,750)
Total	$ 8,957,157,502	$ 8,059,073,224
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	$ 8,976,960,193	$ 8,199,102,066
Less: Intrafund expenditure reimbursements	(70,746,944)	(67,106,212)
Expenditure credits (Note 2d and Note 5b)	(421,931,138)	(449,033,750)
Net expenditures and transfers (Note 4)	$ 8,484,282,111	$ 7,682,962,104
Balances carried forward:		
Multi-year projects	$ 7,137,248	$ 7,681,078
Encumbrances	4,505,377	12,621,768
Restricted revenue - authorized	2,871,621	2,379,240
Restricted revenue - not authorized (Note 6)	457,084,471	276,502,370
Total balances carried forward	$ 471,598,716	$ 299,184,456
Balances lapsed	$ 32,583,430	$ 77,392,233
Overexpended (Note 3)	$ (31,306,756)	$ (465,569)
Total	$ 8,957,157,502	$ 8,059,073,224

The accompanying notes are an integral part of the financial schedules.

HOSPITAL PATIENTS' TRUST FUND
Department of Community Health
Statement of Fiduciary Net Assets
As of September 30

	2001	2000
ASSETS		
Cash	$ 28,600	$ 26,300
Equity in Common Cash	376,768	808,312
Total Assets	$ 405,368	$ 834,612
LIABILITIES		
Warrants outstanding	$ 46,175	$ 32,614
Accounts payable and other liabilities (Note 7)	6,561	6,842
Total Liabilities	$ 52,736	$ 39,456
NET ASSETS		
Net assets held in trust for other purposes (Note 7)	$ 352,631	$ 795,156

The accompanying notes are an integral part of the financial statements.

HOSPITAL PATIENTS' TRUST FUND
Department of Community Health
Statement of Changes in Fiduciary Net Assets
Fiscal Years Ended September 30

	2001	2000
ADDITIONS (Note 5)		
Patient trust contributions	$ 2,864,659	$ 3,298,974
Interest earnings on Common Cash	34,247	52,591
Total Additions	$ 2,898,906	$ 3,351,565
DEDUCTIONS (Note 5)		
Amounts distributed to clients or third parties (Note 7)	$ 3,341,488	$ 3,121,918
Total Deductions	$ 3,341,488	$ 3,121,918
Net increase (decrease)	$ (442,582)	$ 229,647
Net assets held in trust for others - Beginning of fiscal year - restated	795,213	565,566
Net assets held in trust for others - End of fiscal year	$ 352,631	$ 795,213
Reconciliation of net increase in assets:		
Net increase (decrease) in assets held in trust for other purposes	$ (442,582)	$ 229,647
Total net increase (decrease)	$ (442,582)	$ 229,647

The accompanying notes are an integral part of the financial statements.

Note 1 Significant Accounting Policies

a. Reporting Entity

The Department of Community Health (DCH) was created by an executive order in January 1996. DCH is generally comprised of the former Departments of Mental Health and Public Health, the Medical Services Administration, and several programs transferred from the Department of Management and Budget. DCH's mission is to strive for a healthier Michigan by promoting access to the broadest possible range of quality services and supports, taking steps to prevent disease, promoting wellness and improving quality of life, and striving for the delivery of those services and supports in a fiscally prudent manner. The accompanying financial schedules report the results of the financial transactions of DCH for the fiscal years ended September 30, 2001 and September 30, 2000. The financial transactions of DCH are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*). The financial schedules do not include the financial activities of the Hospital Patients' Trust Fund (HPTF).

The accompanying financial statements report the financial position and results of operation of HPTF, a fiduciary fund, as of and for the fiscal years ended September 30, 2001 and September 30, 2000. HPTF is a part of the State of Michigan's reporting entity and is reported as a private purpose trust fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DCH and HPTF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Compensated Absences; Leases; Contingencies and Commitments; and Subsequent Events.

b. Basis of Accounting

The financial schedules contained in this report are reported using the current financial resources measurement focus and the modified accrual basis of accounting as provided by accounting principles generally accepted in the United States of America (GAAP) for governmental funds. The financial statements contained in this report are reported using the economic resources measurement focus and the accrual basis of accounting as provided by GAAP for fiduciary funds. These measurement focuses and bases of accounting are explained in more detail in the *SOMCAFR*.

c. Basis of Presentation

The accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for DCH's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DCH or the State's General Fund in accordance with GAAP.

The accompanying financial statements present only HPTF. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its private purpose trust funds in accordance with GAAP.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.

b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.

c. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

d. Intrafund expenditure reimbursements and expenditure credits: Funding from other General Fund departments or other DCH programs to finance a program or a portion of a program that is the responsibility of DCH. An example of a significant expenditure reimbursement from another General Fund department is the $69 million and $66 million for fiscal years 2000-01 and 1999-2000, respectively, from the Department of Corrections for the operation of the Forensic Center. Expenditure credits include $158 million and $160 million of purchase of State services contract reimbursements, $218 million and $246 million of disproportionate share payments received from State mental health facilities used to help finance the Medicaid Program, and $46 million and $44 million of food and drug rebates for fiscal years 2000-01 and 1999-2000, respectively.

e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.

f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

g. Restricted revenue - authorized: Revenue that, by statute or the State Constitution, is restricted and authorized for use to a particular program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization.

h. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, DCH had not received legislative authorization to expend the revenue. The revenue in the Medicaid Benefits Trust Fund (Note 6) constitutes most of this line item.

i. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

j. Overexpended: The total overexpenditure of line-item authorizations. DCH is required to seek a supplemental appropriation to authorize the expenditure.

Note 3 Overexpended Authorizations

DCH overexpended its legislative authorizations for the fiscal years ended September 30, 2001 and September 30, 2000 by $31,306,756 and $465,569, respectively, which represents noncompliance with State budget laws. These overexpenditures relate primarily to the Medicaid Program, which is both State and federally funded.

DCH's accrued liability for the Medicaid Program as of September 30, 2001 was larger than expected. The accrued liability involved several different elements of the Medicaid Program and the final amount of the liability was determined after the Department of Management and Budget's deadline to apply for a transfer to eliminate the overexpenditure. As of April 12, 2002, DCH had not requested a supplemental appropriation to cover the overexpenditure.

Note 4 Changes in Accounting Estimate

During fiscal year 1999-2000, DCH changed its methodology for estimating the liability for Medicaid inpatient hospital services provided but not paid for by year-end to better utilize actual claims data and historical trends. This resulted in a more accurate estimate of the year-end liability. This change decreased General Fund accounts payable and current expenditures by $92.5 million and amounts due from federal agencies and federal revenue by $51.2 million

compared to the amounts calculated using the previous year's accrual methodology.

Note 5 Accounting Changes and Reclassifications

a. The State of Michigan implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement No. 34, as amended by Statement No. 37, establishes new reporting standards for state and local governments.

Because of the implementation of GASB Statement No. 34, the basis of accounting was changed from the modified accrual basis of accounting to the accrual basis of accounting for HPTF. Also, the presentation of the HPTF financial statements has been changed. Revenues and expenditures on the former statement of revenues, expenditures, and changes in fund balance are now reported as additions and deductions on the statement of changes in fiduciary net assets. Also, fund balances on the former balance sheet are now reported as net assets on the statement of fiduciary net assets.

The financial statements for fiscal years 2000-01 and 1999-2000 are reported in accordance with GASB Statement No. 34. However, the *SOMCAFR* reported only fiscal year 2000-01 in accordance with Statement No. 34. Approval to issue the financial statements for fiscal year 1999-2000 in accordance with Statement No. 34 was requested and obtained from the Office of Financial Management, Department of Management and Budget.

b. Because of a change in State legislation, beginning in fiscal year 1999-2000, DCH reclassified $146 million of purchase of State services contract reimbursements. These were presented as expenditure credits rather than as a direct reduction in Community Mental Health State Program expenditures.

Note 6 Medicaid Benefits Trust Fund

On January 11, 2001, Act 489, P.A. 2000, was enacted, which established the Medicaid Benefits Trust Fund within the General Fund. The Medicaid Benefits Trust Fund consists of:

a. Unexpended State restricted revenue and local revenue received by DCH as a result of additional Medicaid special financing payments above the level assumed in the appropriations for fiscal years 1999-2000, 2000-01, and 2001-02.

b. Donations of money made to the Medicaid Benefits Trust Fund from any source.

c. Interest and earnings from Medicaid Benefits Trust Fund investments.

Act 489, P.A. 2000, provides that the State Legislature shall authorize the expenditure of Medicaid Benefits Trust Fund revenue through an appropriations act for only the following purposes: (1) to finance a shortfall in the Medicaid Program because of a disallowance of Medicaid payments from the federal government or (2) to offset any decline in revenue caused by federal Medicaid policy changes.

The balance in the Medicaid Benefits Trust Fund was $420,887,845 and $239,239,383 as of September 30, 2001 and September 30, 2000, respectively. These amounts are included in DCH's schedule of sources and disposition of General Fund authorizations as balances carried forward, restricted revenue - not authorized.

Note 7 Hospital Patients' Trust Fund (HPTF)

On September 18, 2000, the Wayne County Circuit Court dismissed a case brought against DCH by a client to recover approximately $200,000 of funds deposited into HPTF that were owed to the General Fund for cost of care. DCH did not record a liability to the General Fund at September 30, 2000 because DCH believed that the client would refile his case in probate court to recover these funds. In March 2001, upon learning that the client did not file in probate court, the funds were paid to the General Fund for his cost of care.

Note 8 Contingency

School Based Services Outreach Program: The financial schedules include revenue and expenditures related to the School Based Services Outreach Program. These expenditures are partially funded by Medicaid. The federal Centers for Medicare and Medicaid Services (CMS), U.S. Department of Health and Human Services (HHS), issued a financial management review dated June 16, 2000, in which it cited several inadequacies regarding the time study procedures used in allocating expenditures to Medicaid, resulting in a disallowance. In reference to this disallowance, DCH reached a settlement with HHS.

The settlement will result in the following:

a. CMS will fund the following:

(1) 100% of the claims from October 1996 through June 1998 in the amount of $219,010,952.

(2) 50% of the $194,901,894 of claims from September 1998 through December 1999 in the amount of $97,450,947.

(3) 30% of the $324,005,321 of claims from January 2000 through September 2001 in the amount of $97,201,596.

b. DCH must develop and obtain CMS approval of revised time study codes and methodologies within six months of the settlement date. A retroactive adjustment will be made to "backcast" the results to the claims submitted during fiscal years 1999-2000 and 2000-01 based on CMS-approved implementation of the results of the new methodology for four quarters. The new rate will be applied to the $324,005,321 of claims that were funded at 30%. Any variance from 30% will result in a corresponding adjustment in federal revenue and remain an immeasurable gain/loss contingency at this time. In the event that CMS does not approve the revised time study codes and methodologies, the agreement specifies CMS rights.

c. The financial schedules were impacted:

(1) Federal accounts receivable in the amount of $51,934,484 relating to fiscal year 1998-99 activities were written off.

(2) Federal accounts payable to intermediate school districts (relating to fiscal year 1998-99 activities) in the amount of $19,199,816 were written off.

(3) Federal revenue earned per the settlement for activities of fiscal years 1999-2000 and 2000-01 ($97,201,596) was not recorded in DCH's financial schedules because it was netted against prior fiscal year claims that were disallowed ($97,450,947).

SUPPLEMENTAL
FINANCIAL SCHEDULES

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DEPARTMENT OF COMMUNITY HEALTH
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	2001	2000
ASSETS		
Current Assets:		
Accounts Receivable:		
Amounts due from federal agencies	$ 428,495,164	$ 391,376,580
Amounts due from local agencies	80,991,570	456,839,666
Taxes, interest, and penalties receivable	3,586,226	2,957,152
Miscellaneous (other current assets)	179,918,862	137,555,454
Total Accounts Receivable	$ 692,991,821	$ 988,728,852
Inventories *	$ 1,382,205	$ 1,520,534
Noncurrent Assets:		
Accounts Receivable:		
Amounts due from federal agencies	$ 889,046	$ 0
Taxes, interest, and penalties receivable	$ 1,954	$ 16,693
Other noncurrent assets	$ 460,000	$ 460,000
LIABILITIES		
Current Liabilities:		
Accounts payable and other liabilities	$ 540,372,105	$ 493,783,574
Unearned receipts	$ 200,948	$ 376,884
Amounts due to other funds	$ 618,341	$ 57,959
Deferred revenue	$ 4,397,530	$ 5,908,688
Deferred revenue - Long-term	$ 461,954	$ 476,693

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Community Health. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as capital assets (land, building, and equipment), equity in Common Cash, cash in transit, and warrants outstanding.

* These amounts represent the cost of office and laboratory supplies on hand as of September 30.

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Financial Assistance					
U.S. Department of Agriculture					
Child Nutrition Cluster					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	2001N109942	$ 66,731	$	$ 66,731
National School Lunch Program	10.555	2001N109942	102,319		102,319
Total Child Nutrition Cluster			$ 169,050	$ 0	$ 169,050
Direct Programs:					
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557		$ 6,230,494	$ 108,343,398	$ 114,573,892
Nutrition Program for the Elderly	10.570		(54,612)	6,997,434	6,942,822
WIC Farmers' Market Nutrition Program (FMNP)	10.572		95,196	420,294	515,490
Total Direct Programs			$ 6,271,078	$ 115,761,126	$ 122,032,204
Total U.S. Department of Agriculture			**$ 6,440,128**	**$ 115,761,126**	**$ 122,201,254**
U.S. Department of Housing and Urban Development					
Direct Programs:					
Supportive Housing Program	14.235		$	$	$ 0
Shelter Plus Care	14.238		11,622	1,398,762	1,410,384
Housing Opportunities for Persons with AIDS	14.241		(824,217)	838,173	13,956
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		611,731	219,101	830,832
Total U.S. Department of Housing and Urban Development			**$ (200,864)**	**$ 2,456,036**	**$ 2,255,172**
U.S. Department of Justice					
Direct Programs:					
Crime Victim Assistance	16.575		$ (80,643)	$ 8,763,925	$ 8,683,282
Crime Victim Compensation	16.576		221,367	185,943	407,310
Byrne Formula Grant Program	16.579		(611,324)	15,902,261	15,290,937
Local Law Enforcement Block Grants Program	16.592		(59,305)	2,615,851	2,556,546
Residential Substance Abuse Treatment for State Prisoners	16.593			2,222,639	2,222,639
Executive Office for Weed and Seed	16.595		928	61,277	62,205
Total U.S. Department of Justice			**$ (528,977)**	**$ 29,751,896**	**$ 29,222,919**
U.S. Department of Labor					
Direct Program:					
Senior Community Service Employment Program	17.235		$ 137,841	$ 2,700,000	$ 2,837,841
Total U.S. Department of Labor			**$ 137,841**	**$ 2,700,000**	**$ 2,837,841**
U.S. Department of Transportation					
Highway Safety Cluster					
Pass-Through Program:					
Michigan Department of State Police					
State and Community Highway Safety	20.600	PS-00-01	$ 22,785	$	$ 22,785
State and Community Highway Safety	20.600	PS-01-01			0
State and Community Highway Safety	20.600	OP-00-01	75,000		75,000
State and Community Highway Safety	20.600	OP-01-01			0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 67,451	$	$ 67,451	$ 134,182
103,518		103,518	205,837
$ 170,969	$ 0	$ 170,969	$ 340,019
$ 8,299,116	$ 112,006,946	$ 120,306,062	$ 234,879,954
(371,962)	7,356,571	6,984,609	13,927,431
49,517	523,140	572,657	1,088,147
$ 7,976,671	$ 119,886,657	$ 127,863,328	$ 249,895,532
$ 8,147,640	**$ 119,886,657**	**$ 128,034,297**	**$ 250,235,551**
$ 7,982	$	$ 7,982	$ 7,982
10,197	1,322,359	1,332,556	2,742,940
(122,346)	972,473	850,127	864,083
730,386	311,380	1,041,766	1,872,598
$ 626,219	**$ 2,606,212**	**$ 3,232,431**	**$ 5,487,603**
$ 142,209	$ 10,092,727	$ 10,234,936	$ 18,918,218
423,031		423,031	830,341
1,173,840	18,182,864	19,356,704	34,647,641
54,623	1,425,148	1,479,771	4,036,317
	2,162,195	2,162,195	4,384,834
		0	62,205
$ 1,793,703	**$ 31,862,934**	**$ 33,656,637**	**$ 62,879,556**
$ 135,546	$ 2,758,700	$ 2,894,246	$ 5,732,087
$ 135,546	**$ 2,758,700**	**$ 2,894,246**	**$ 5,732,087**
$	$	$ 0	$ 22,785
34,391	1,811	36,202	36,202
		0	75,000
31,618		31,618	31,618

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
State and Community Highway Safety	20.600	CP-00-01	$	$ 339,158	$ 339,158
State and Community Highway Safety	20.600	CP-01-01			0
State and Community Highway Safety	20.600	CP-01-05			0
State and Community Highway Safety	20.600	AL-00-15	1,010,610		1,010,610
State and Community Highway Safety	20.600	J7-99-06	(28,014)		(28,014)
State and Community Highway Safety	20.600	AL-98-01			0
State and Community Highway Safety	20.600	OP-00-05	2,572		2,572
Total Highway Safety Cluster			$ 1,082,953	$ 339,158	$ 1,422,111
Total U.S. Department of Transportation			**$ 1,082,953**	**$ 339,158**	**$ 1,422,111**
U.S. Environmental Protection Agency					
Direct Programs:					
Surveys, Studies, Investigations and Special Purpose Grants	66.606		$	$	$ 0
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707		419,159	12,774	431,933
Total U.S. Environmental Protection Agency			**$ 419,159**	**$ 12,774**	**$ 431,933**
U.S. Department of Education					
Special Education Cluster					
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants to States	84.027	044059	$ 38,576	$	$ 38,576
Special Education - Grants to States	84.027	044959	28,006		28,006
Special Education - Grants to States	84.027	049059	30,000		30,000
Special Education - Grants to States	84.027	0490-59CB	5,000		5,000
Special Education - Grants to States	84.027	H027000110			0
Special Education - Grants to States	84.027	H027A000110			0
Special Education - Grants to States	84.027	H027A000110			0
Special Education - Grants to States	84.027	H027A000110			0
Total Special Education Cluster			$ 101,582	$ 0	$ 101,582
Direct Program:					
Safe and Drug-Free Schools and Communities - State Grants	84.186		$ 123,037	$ 3,677,310	$ 3,800,347
Total Direct Program			$ 123,037	$ 3,677,310	$ 3,800,347
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants for Infants and Families with Disabilities	84.181	011330/IACPHA	$ 35,227	$	$ 35,227
Special Education - Grants for Infants and Families with Disabilities	84.181	001339/IACPHA	21,946	3,079	25,025
Special Education - Grants for Infants and Families with Disabilities	84.181	001338/IACPHA			0
Special Education - Grants for Infants and Families with Disabilities	84.181	1339/IACMHA	39,452	23,939	63,391
Special Education - Grants for Infants and Families with Disabilities	84.181	11330/IACMHA	61,699	4,708	66,407
Special Education - Grants for Infants and Families with Disabilities	84.181	011330/IACMHA			0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$	$	$ 0	$ 339,158
	315,038	315,038	315,038
25,000	803,296	828,296	828,296
(29,164)		(29,164)	981,446
(65,205)		(65,205)	(93,219)
(10,227)		(10,227)	(10,227)
181,764	81,664	263,428	266,000
$ 168,177	$ 1,201,809	$ 1,369,986	$ 2,792,097
$ 168,177	**$ 1,201,809**	**$ 1,369,986**	**$ 2,792,097**
$ 25,000	$	$ 25,000	$ 25,000
380,140		380,140	$ 812,073
$ 405,140	**$ 0**	**$ 405,140**	**$ 837,073**
$ 31,453	$	$ 31,453	$ 70,029
		0	28,006
		0	30,000
		0	5,000
5,000		5,000	5,000
30,000		30,000	30,000
33,280		33,280	33,280
19,562		19,562	19,562
$ 119,295	$ 0	$ 119,295	$ 220,877
$ (70,063)	$ 3,135,127	$ 3,065,064	$ 6,865,411
$ (70,063)	$ 3,135,127	$ 3,065,064	$ 6,865,411
$ 96,546	$	$ 96,546	$ 131,773
		0	25,025
(35,600)		(35,600)	(35,600)
		0	63,391
		0	66,407
112,389		112,389	112,389

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Special Education - Grants for Infants and Families with Disabilities	84.181	001330/IACPHA	$ 64,494	$ 25,000	$ 89,494
Total Special Education - Grants for Infants and Families with Disabilities			$ 222,818	$ 56,726	$ 279,544
Michigan Department of Education					
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A60023	$ (18,737)	$	$ (18,737)
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A70023	(11,745)		(11,745)
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A980023	213,293	546,299	759,592
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A990023	412,864	26,630	439,494
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A000023			0
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A000023			0
Safe and Drug-Free Schools and Communities - State Grants	84.186	28604700	473		473
Total Safe and Drug-Free Schools and Communities - State Grants			$ 596,148	$ 572,929	$ 1,169,077
Michigan Department of Education					
Eisenhower Professional Development State Grants	84.281	02709900	$ 309	$	$ 309
Total Eisenhower Professional Development State Grants			$ 309	$ 0	$ 309
Michigan Department of Education					
Innovative Education Program Strategies	84.298	02509900	$ 100	$ 0	$ 100
Total Innovative Education Program Strategies			$ 100	$ 0	$ 100
Total Pass-Through Programs			$ 819,375	$ 629,655	$ 1,449,030
Total U.S. Department of Education			**$ 1,043,994**	**$ 4,306,965**	**$ 5,350,959**
U.S. Department of Health and Human Services					
Aging Cluster					
Direct Programs:					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		$ (176,392)	$ 11,069,227	$ 10,892,835
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		609,081	17,254,222	17,863,303
Total Aging Cluster			$ 432,689	$ 28,323,449	$ 28,756,138
Medicaid Cluster					
Direct Program:					
Medical Assistance Program (Medicaid)	93.778		$ 3,733,197,859	$ 106,747,457	$ 3,839,945,316
Total Medicaid Cluster			$ 3,733,197,859	$ 106,747,457	$ 3,839,945,316

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$	$	$ 0	$ 89,494
$ 173,335	$ 0	$ 173,335	$ 452,879
$ (41,453)	$	$ (41,453)	$ (60,190)
(98,919)		(98,919)	(110,664)
(221)		(221)	759,371
181,468	578,293	759,761	1,199,255
297,287	80,893	378,180	378,180
542		542	542
		0	473
$ 338,704	$ 659,186	$ 997,890	$ 2,166,967
$ 0	$ 0	$ 0	$ 309
$ 0	$ 0	$ 0	$ 309
$ 0	$ 0	$ 0	$ 100
$ 0	$ 0	$ 0	$ 100
$ 631,334	$ 659,186	$ 1,290,520	$ 2,841,132
$ 561,271	**$ 3,794,313**	**$ 4,355,584**	**$ 9,706,543**
$ (56,248)	$ 11,237,273	$ 11,181,025	$ 22,073,860
568,542	17,220,722	$ 17,789,264	35,652,567
$ 512,294	$ 28,457,995	$ 28,970,289	$ 57,726,427
$ 4,111,303,833	$ 123,841,114	$ 4,235,144,947	$ 8,075,090,263
$ 4,111,303,833	$ 123,841,114	$ 4,235,144,947	$ 8,075,090,263

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Family Independence Agency					
Child Care Cluster					
Child Care and Development Block Grant	93.575	IA99005	$	$	$ 0
Child Care and Development Block Grant	93.575	IA99005	129,774		129,774
Child Care and Development Block Grant	93.575	IA 01-01			0
Child Care and Development Block Grant	93.575	None assigned	60,000	165,300	225,300
Total Child Care Cluster			$ 189,774	$ 165,300	$ 355,074
Direct Programs:					
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		$ (10,091)	$ 157,850	$ 147,759
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		(13,862)	301,031	287,169
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043		(64,182)	626,975	562,793
Special Programs for the Aging - Title III, Part D - In-Home Special Services for Frail Older Individuals	93.046		(42,624)	58,187	15,563
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048			36,031	36,031
Nation Family Caregiver Support Program	93.052				0
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		2,146,601		2,146,601
Maternal and Child Health Federal Consolidated Programs	93.110		25,804	248,705	274,509
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		252,939	506,501	759,440
Primary Care Services - Resource Coordination and Development - Primary Care Offices	93.130		91,792	129,172	220,964
Injury Prevention and Control Research and State and Community Based Programs	93.136		92,666	231,328	323,994
Projects for Assistance in Transition from Homelessness (PATH)	93.150		676,248		676,248
Coordinated HIV Services and Access to Research for Children, Youth, Women, and Families	93.153		(36,203)	856,857	820,654
Health Program for Toxic Substances and Disease Registry	93.161		430,241		430,241
Grants for State Loan Repayment	93.165			559,357	559,357
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196		(217,482)	411,669	194,187
Childhood Lead Poisoning Prevention Projects - State and Local-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		199,957	368,545	568,502
Family Planning - Services	93.217		(18,650)	4,788,853	4,770,203
Traumatic Brain Injury - State Demonstration Grant Program	93.234			16,862	16,862
Abstinence Education	93.235		620,911	1,354,245	1,975,156
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		40,659	196,687	237,346
State Rural Hospital Flexibility Program	93.241			76,987	76,987
Universal Newborn Hearing Screening	93.251				0
Occupational Safety and Health Research Grants	93.262				0
Immunization Grants	93.268		1,156,517	5,586,376	6,742,893
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		2,159,781	1,102,599	3,262,380

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ (265)	$	$ (265)	$ (265)
(611)		(611)	129,163
988,747		988,747	988,747
(6,415)		(6,415)	218,885
$ 981,456	$ 0	$ 981,456	$ 1,336,530
$ (4,880)	$ 175,511	$ 170,631	$ 318,390
	315,169	315,169	602,338
(54,169)	760,662	706,493	1,269,286
		0	15,563
		0	36,031
196,615	2,038,355	2,234,970	2,234,970
438,436		438,436	2,585,037
52,723	238,821	291,544	566,053
304,298	505,083	809,381	1,568,821
108,233	129,172	237,405	458,369
180,157	323,504	503,661	827,655
760,376		760,376	1,436,624
(274,668)	977,482	702,814	1,523,468
385,417		385,417	815,658
	658,015	658,015	1,217,372
(144)		(144)	194,043
416,577	378,856	795,433	1,363,935
221,594	5,655,532	5,877,126	10,647,329
1,675	13,874	15,549	32,411
(477,313)	1,718,721	1,241,408	3,216,564
33,435	526,722	560,157	797,503
	427,701	427,701	504,688
69,337		69,337	69,337
31,779	65,863	97,642	97,642
1,704,585	4,226,490	5,931,075	12,673,968
2,465,582	2,068,378	4,533,960	7,796,340

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Refugee and Entrant Assistance - Discretionary Grants	93.576		$	$ 2,455	$ 2,455
Developmental Disabilities Basic Support and Advocacy Grants	93.630		2,448,178	128,078	2,576,256
Developmental Disabilities Projects of National Significance	93.631		41,669		41,669
State Children's Insurance Program (CHIP)	93.767		36,127,197		36,127,197
Health Care Financing Research, Demonstrations and Evaluations	93.779		(24,321)	421,473	397,152
Grants to States for Operation of Offices of Rural Health	93.913		(116,283)	91,144	(25,139)
HIV Emergency Relief Project Grants	93.914				0
HIV Care Formula Grants	93.917		5,230,292	3,866,822	9,097,114
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		645,545	4,476,616	5,122,161
HIV Prevention Activities - Health Department Based	93.940		304,602	5,827,601	6,132,203
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942		41,401	683	42,084
Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		507,656	2,029,463	2,537,119
Assistance Programs for Chronic Disease Prevention and Control	93.945		5,001	43,069	48,070
Community-Based Comprehensive HIV/STD/TB Outreach Services for High Risk Substance Abusers	93.949		(93,839)		(93,839)
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951		622,948		622,948
Block Grants for Community Mental Health Services	93.958		10,380,170	2,692	10,382,862
Block Grants for Prevention and Treatment of Substance Abuse	93.959		861,585	57,840,589	58,702,174
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		543,578	2,202,914	2,746,492
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		418,111	345,539	763,650
Preventive Health and Health Services Block Grant	93.991		193,346	7,863,563	8,056,909
Maternal and Child Health Services Block Grant to the States	93.994		8,885,013	12,310,389	21,195,402
Vital Statistics Cooperative Study	93 (3)		507,558		507,558
National Death Index	93 (3)		52,250		52,250
American Stop Smoking Intervention for Cancer Prevention	93 (3)		(122,113)		(122,113)
State Demand and Needs Assessment Study	93 (3)		654	261,056	261,710
Implementation of Uniform Alcohol and Drug Abuse Data Collection System	93 (3)		51,887	1,133	53,020
Demonstration of the Usefulness of Client Level Data for Evaluation of HIV/AIDS Services Program	93 (3)		(20,766)	279,074	258,308
Social Security Administration - Birth Enumeration	93 (3)		185,145		185,145
Social Security Administration - Death Records	93 (3)		52,517		52,517
Minority Health - Community Capacity Building	93 (3)		(302)	5,000	4,698
Tobacco Investigations	93 (3)		51,506	198,063	249,569
Client Demonstration Project (CDP) - Evaluation of HIV/AIDS Service Programs	93 (3)				0
Antibiotic Resistance Education Project	93 (3)				0
Total Direct Programs			$ 75,271,207	$ 115,812,233	$ 191,083,440
Pass-Through Programs:					
Department of Consumer and Industry Services					
Emergency Medical Services for Children	93.127	6 H33 MC00052-0151	$ 0	$ 0	$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$	$	$ 0	$ 2,455
1,679,002	739,810	2,418,812	4,995,068
153,771		153,771	195,440
37,176,148		37,176,148	73,303,345
511	467,069	467,580	864,732
(600)	50,036	49,436	24,297
	40,000	40,000	40,000
5,919,223	5,201,830	11,121,053	20,218,167
664,171	5,385,097	6,049,268	11,171,429
(128,437)	5,929,369	5,800,932	11,933,135
18,234		18,234	60,318
226,509	1,413,437	1,639,946	4,177,065
15,684	242,412	258,096	306,166
		0	(93,839)
(79,060)	64,098	(14,962)	607,986
11,239,422	123,449	11,362,871	21,745,733
2,868,805	52,447,851	55,316,656	114,018,830
972,334	2,210,963	3,183,297	5,929,789
484,337	347,239	831,576	1,595,226
116,352	7,139,972	7,256,324	15,313,233
10,859,449	14,373,619	25,233,068	46,428,470
500,361		500,361	1,007,919
38,947		38,947	91,197
		0	(122,113)
(103,871)	383,662	279,791	541,501
94,788		94,788	147,808
		0	258,308
219,297		219,297	404,442
50,228		50,228	102,745
		0	4,698
(110,467)	36,364	(74,103)	175,466
	196,980	196,980	196,980
	20,000	20,000	20,000
$ 79,434,783	$ 118,017,168	$ 197,451,951	$ 388,535,391
$ 0	$ 260,000	$ 260,000	$ 260,000

DEPARTMENT OF COMMUNITY HEALTH

Schedule of Expenditures of Federal Awards (1)

For the Period October 1, 1999 through September 30, 2001

Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Family Independence Agency					
Temporary Assistance for Needy Families	93.558	None assigned	$ 10,098,835	$	$ 10,098,835
Temporary Assistance for Needy Families	93.558	None assigned			0
Temporary Assistance for Needy Families	93.558	None assigned		4,000	4,000
Total Temporary Assistance for Needy Families			$ 10,098,835	$ 4,000	$ 10,102,835
Family Independence Agency					
Child Support Enforcement	93.563	None assigned	$ 223,767	$	$ 223,767
Child Support Enforcement	93.563	00IA44			0
Total Child Support Enforcement			$ 223,767	$ 0	$ 223,767
Michigan Department of Education					
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2770INFRA101	$	$	$ 0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2770INFRA100	54,574		54,574
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2779INFRA299	1,114		1,114
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012760-EXP			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2760EXP100	14,721		14,721
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	002750AIDS100	12,384		12,384
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012750/MDCHDHAS			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012750-HIV			0
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			$ 82,793	$ 0	$ 82,793
University of Wisconsin					
Health Assessment of Great Lakes Sport Fish Consumption	93 (3)	P220824	$ 11,500	$ 0	$ 11,500
Wayne State University					
Wayne State University - Seer Data	93 (3)	Y-286871	$	$	$ 0
Total Pass-Through Programs			$ 10,416,895	$ 4,000	$ 10,420,895
Total U.S. Department of Health and Human Services			**$ 3,819,508,424**	**$ 251,052,439**	**$ 4,070,560,863**
Total Financial Assistance			$ 3,827,902,658	$ 406,380,394	$ 4,234,283,052

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ (17,200)	$	$ (17,200)	$ 10,081,635
14,083,321		14,083,321	14,083,321
		0	4,000
$ 14,066,121	$ 0	$ 14,066,121	$ 24,168,956
$	$	$ 0	$ 223,767
234,432		234,432	234,432
$ 234,432	$ 0	$ 234,432	$ 458,199
$ 63,095	$	$ 63,095	$ 63,095
6,776		6,776	61,350
		0	1,114
3,143	5,000	8,143	8,143
		0	14,721
1,484		1,484	13,868
	34,000	34,000	34,000
	18,218	18,218	18,218
$ 74,498	$ 57,218	$ 131,716	$ 214,509
$ 0	$ 0	$ 0	$ 11,500
$	$ 10,500	$ 10,500	$ 10,500
$ 14,375,051	$ 327,718	$ 14,702,769	$ 25,123,664
$ 4,206,607,417	**$ 270,643,995**	**$ 4,477,251,412**	**$ 8,547,812,275**
$ 4,218,445,113	$ 432,754,620	$ 4,651,199,733	$ 8,885,482,785

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Nonfinancial Assistance					
U.S. Department of Agriculture					
Direct Program:					
Food Distribution	10.550		$ 21,896	$	$ 21,896
Total U.S. Department of Agriculture			**$ 21,896**	**$ 0**	**$ 21,896**
U.S. Department of Health and Human Services					
Direct Programs:					
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		$ 18,431	$	$ 18,431
Immunization Grants	93.268		25,791,541		25,791,541
HIV Prevention Activities - Health Department Based	93.940		67,915		67,915
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		115,042		115,042
Preventive Health and Health Services Block Grant	93.991		65,613		65,613
Total U.S. Department of Health and Human Services			**$ 26,058,542**	**$ 0**	**$ 26,058,542**
Total Nonfinancial Assistance			$ 26,080,438	$ 0	$ 26,080,438
Total Expenditures of Federal Awards			$ 3,853,983,096	$ 406,380,394	$ 4,260,363,490

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Community Health and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance*.

(3) *CFDA* number not available. Number derived from the federal agency number and grant or control number, if available.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 18,738	$	$ 18,738	$ 40,634
$ 18,738	**$ 0**	**$ 18,738**	**$ 40,634**
$ 34,750	$	$ 34,750	$ 53,181
27,806,951		27,806,951	53,598,492
34,944		34,944	102,859
303,058		303,058	418,100
11,074		11,074	76,687
$ 28,190,777	**$ 0**	**$ 28,190,777**	**$ 54,249,319**
$ 28,209,515	$ 0	$ 28,209,515	$ 54,289,953
$ 4,246,654,628	$ 432,754,620	$ 4,679,409,248	$ 8,939,772,738

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

April 12, 2002

Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

We have audited the General Fund financial schedules of the Department of Community Health for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated April 12, 2002. We have also audited the Hospital Patients' Trust Fund financial statements of the Department of Community Health as of and for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated April 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules and financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule or financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and financial statements and not to

provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules or financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 1 and 2 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

April 12, 2002

Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

Compliance

We have audited the compliance of the Department of Community Health with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Community Health complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 9 through 12.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 9 through 12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules and Financial Statements

Type of auditor's reports issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	Yes
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial schedules or financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

* *See glossary at end of report for definition.*

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.767	State Children's Insurance Program (CHIP)
93.778	Medicaid Cluster
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities - Health Department Based
93.994	Maternal and Child Health Services Block Grant to the States

Dollar threshold used to distinguish between type A and type B programs: $26,819,318

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules and Financial Statements

FINDING (390101)

1. Internal Control Over Financial Reporting

The Department of Community Health (DCH) needs to improve its internal control over financial reporting to ensure that financial transactions are processed in accordance with State and federal regulations.

Internal control is a process designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Properly designed internal

* *See glossary at end of report for definition.*

control supports effective methods to achieve program goals and increases efficiency by reducing the total resources needed to ensure that assets are safeguarded and that liabilities to third parties, such as federal grantor agencies, are avoided.

Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* and Title 34, Part 80 of the *Code of Federal Regulations (CFR)* place responsibility for DCH's internal control with DCH management. This responsibility includes ensuring that an internal control system is properly established, is functioning as intended, and is modified as needed for any changes in the condition of the system. Monitoring is an important element of an internal control system. Monitoring is needed to determine if controls are working as designed and to prevent or detect errors in financial transactions. Throughout our audit, we noted numerous accounting adjustments that had to be made which indicated that DCH needed to increase its monitoring over the processing of financial transactions.

Our audit disclosed:

a. DCH did not take appropriate action to correct a material weakness identified in its biennial assessment of its internal control system.

   Section 18.1485(4) of the *Michigan Compiled Laws* requires DCH to conduct a biennial assessment of its internal accounting and administrative control system. In the assessment completed for fiscal year 1999-2000, DCH reported a material weakness that resulted from a lack of monitoring procedures which would have determined whether DCH controls were working as designed. DCH indicated in its corrective action plan that it would form focus groups to document and evaluate the effectiveness of its monitoring procedures. However, at the time of our audit, the focus groups had not completed any follow-up to document and evaluate DCH's monitoring activities and the focus groups were disbanded.

b. DCH controls over financial transactions did not prevent the recording of numerous accounting transactions that needed adjustment during our audit period.

   During our audit of the *State of Michigan Comprehensive Annual Financial Report* for fiscal years 2000-01 and 1999-2000, we noted numerous

accounting transactions that needed adjustment. These transactions resulted in 23 audit memorandums requesting audit adjustments totaling approximately $282.8 million. DCH could have prevented some of these adjustments by better monitoring the accounting entries and reviewing the supporting information.

c. DCH needs to improve its monitoring of financial status reports (FSRs) submitted by community mental health service programs (CMHSPs) to help identify expenditures that are not in accordance with the DCH contracts with the CMHSPs for follow-up in the cost settlement process and audit process. For example:

(1) One authority obtained funding totaling approximately $1.5 million for expenditures it did not incur. This authority deposited these reimbursements into a reserve fund for land improvements, which had been established for the anticipated costs of a future construction project. Such reimbursements are not in accordance with Section 330.1242(c) of the *Michigan Compiled Laws*, which specifies that, to be eligible for State financial support, reimbursements must be for real or actual expenditures. Because these reimbursements were charged to the Medicaid Program, federal cost principles (OMB Circular A-87) were violated.

(2) Our review of 7 recent CMHSP audit reports by the DCH Office of Audit disclosed that all 7 of the CMHSPs had been reimbursed for capital expenditures, totaling $2.2 million, that were not in compliance with federal cost principles. OMB Circular A-87 requires capital costs to be depreciated over the useful life of the assets unless permission is obtained from the federal grantor to charge the costs directly to the grant. These costs were reported to DCH for reimbursement in an FSR. However, the FSR did not provide for the separation of capital costs by the CMHSPs so that DCH could identify that capital costs were included.

d. DCH did not monitor compliance with federal limitations on administrative costs associated with the HIV Care Formula Grants Program (*CFDA* Number 93.917). It was difficult for DCH to monitor the amount of administrative costs because program FSRs did not require sufficient detail on the amount and

type of administrative costs that were paid to DCH subrecipients*. DCH should revise the FSRs to include additional information so that DCH can monitor compliance with federal administrative cost limitations.

Because of the significance of the weaknesses and errors noted during our audit, we conclude that this is a material weakness in these controls.

RECOMMENDATION

We recommend that DCH improve its internal control over financial reporting to ensure that financial transactions are processed in accordance with State and federal regulations.

FINDING (390102)

2. Medicaid Claims and Payment Data

DCH had not implemented controls to ensure the accuracy of Medicaid inpatient hospital claims and payments. Controls are important because Medicaid inpatient hospital payments totaled approximately $700 million in fiscal year 2000-01.

During our audit, we noted the following internal control weaknesses related to the Medicaid inpatient hospital claims and payments processing:

a. DCH did not maintain Medicaid claims data used in the cost settlement process in a controlled production environment. Because the Medicaid Management Information System (MMIS) maintains the claims data for only 5 to 7 years and DCH often takes longer to cost settle, the claims data is extracted from MMIS and saved to tapes. However, DCH did not properly safeguard the original extracts or any subsequent edits to the extracts. We noted:

   (1) DCH did not validate the completeness or accuracy of the data by using control totals or record counts prior to using or storing extracted data. Control totals and record counts would help ensure that there is a complete population when using the extracted data for cost settlements or other analysis.

* *See glossary at end of report for definition.*

(2) DCH did not store and run program files used to adjust pricing and produce reports for the cost settlement process in a production environment. Moving the cost settlement process to a production environment would improve controls by restricting programmer and analyst access to programs and data. It would also help ensure that the information used in the cost settlement calculation was produced in a consistent manner.

(3) DCH did not have a formal policy for processing, approving, and monitoring price changes on the claims data, and there was no documentation of such changes. DCH had a formal policy for pricing changes on current claims processed on MMIS, but this process was not applied to the claims data once the data was extracted from MMIS and saved to tapes. In addition, DCH maintained pricing changes on a desktop computer rather than in a controlled production environment. As a result, DCH had little assurance that the negotiated and approved pricing changes were properly applied to the claims data. Errors in the pricing of claims result in DCH overpaying or underpaying hospitals during the cost settlement process.

(4) DCH did not have formal procedures for processing and reconciling data used in the cost settlement process or for creating reports used in this process. When requested that the claims data be prepared as it would be for cost settlement purposes, DCH had to run the request over eight different times to obtain complete and accurate data. Formal procedures would help DCH ensure the completeness, consistency, and accuracy of the data each time it is used, as well as increase the efficiency of the cost settlement process.

b. DCH did not cost settle with the Medicaid inpatient hospitals in a timely manner. DCH cost settles with the hospitals after DCH receives the Medicare audited cost report. This report is generally received 3 to 4 years after the close of the hospitals' fiscal year. However, the cost settlement process usually occurs between 4 and 10 years after the close of the hospitals' fiscal year. At the time of our audit, DCH had cost years open dating back to fiscal year 1990-91. The delay in cost settling contributed to many of the problems and accounting errors in the Medicaid inpatient hospital program. The delay in cost settling also prevents the State from making timely settlement payments

to hospitals or receiving timely recovery of overpayments from hospitals. Sound management practices dictate that a 10-year settlement process should be shortened significantly. Also, an expedited settlement process could increase the accuracy of the accrual of Medicaid liabilities.

c. DCH did not make appropriate adjustments to Medicaid interim payments (MIPs) and capital interim payments (CIPs) when it began moving large numbers of Medicaid patients into managed care plans in fiscal year 1996-97. Interim payments are made to hospitals based on historical patterns of medical claims to provide regular cash flow to the hospitals so that the hospitals do not have to wait for medical claims to be processed in order to be paid. Accurately calculating the size of these payments is important because the amounts are significant. For fiscal year 2000-01, MIPs totaled $389 million and CIPs totaled $40 million. Managed care plans pay health maintenance organizations set or capitated monthly fees based on characteristics of their members, rather than a fee for each medical service provided to an individual member. The move to managed care has resulted in a significant drop in fee-for-service medical claims for the inpatient hospital providers and in the amount needed in interim payments.

   Because DCH based MIPs and CIPs on medical claims data that was more than two years old, the payments were estimated using the higher volume of medical claims that were processed prior to the move to managed care. Using the old data resulted in MIPs and CIPs that routinely exceeded medical claim amounts, resulting in overpayments to the hospitals. Because of the length of time required to cost settle, the State will not fully recoup the overpayments for several years. Therefore, DCH should re-evaluate the MIPs and CIPs being made to the hospitals to ensure that this trend of overpayment does not continue.

d. The primary systems used to calculate and initiate payments, e.g., the Cardfile System, have coding limitations that do not directly interface with the Michigan Administrative Information Network (MAIN). The limitations directly affected DCH's ability to sufficiently control and monitor the payment data and resulted in numerous payment classification errors. In addition, the Cost Settlement System had limited retention capabilities for cost settlements initiated before March 2000. Although the System had improved electronic data query capability after March 2000, electronic data queries of the System were used

only on a limited basis. This significantly impaired DCH's ability to effectively monitor the cost settlement process. As a result of these limitations, many of the records used to calculate the Medicaid liability were manual and contained mathematical errors, transposition errors, and other incorrect or incomplete data that contributed to the financial reporting and accounting errors noted during our audit.

Because of the significance of Medicaid inpatient hospital claims and payments, we conclude that this is a material weakness in these controls.

RECOMMENDATION

We recommend that DCH implement controls to ensure the accuracy of Medicaid inpatient hospital claims and payments.

FINDING (390103)

3. Inpatient Hospital Claims Liability

DCH's estimate of the liability for Medicaid inpatient hospital claims that had been incurred but not reported (IBNR) as of September 30, 2000 included adjustments for factors that were not adequately supported by relevant, sufficient, and reliable data. As a result, the IBNR liability was overstated by approximately $30 million.

Department of Management and Budget (DMB) Administrative Guide procedure 1210.27 requires estimation methods to be justified, documented, objective, reasonably reliable, practical, and consistently applied. An accurate estimate of the IBNR liability is important because of the significance of this component to the total inpatient hospital liability. For example, as of September 30, 2000, the IBNR component was approximately $158 million.

DCH based its estimate of the IBNR liability on the historical lag rates for claim payments in previous fiscal years and increased it based on four additional factors. These factors were: (1) recent changes in the percent of claims paid within one year, (2) an increased number of Medicaid recipients with a fee-for-service arrangement, (3) increases in the amount of outlier claims, and (4) the underreporting of claims on the Medicaid expenditure reports (SQ-100).

The four factors used by DCH were not valid, were not properly supported, or were already incorporated in the historical lag rates. For example, DCH did not include all provider types when analyzing the SQ-100 reports, which resulted in the mistaken conclusion that the payments were understated and the liability needed to be increased. Also, if DCH had used the historic lag rate for claims, without adjustment, to calculate the IBNR liability as of September 30, 2000, the actual claims would have very closely matched the recorded IBNR liability.

RECOMMENDATION

We recommend that DCH estimate its IBNR liability using factors that are adequately supported by relevant, sufficient, and reliable data.

FINDING (390104)

4. Inpatient Hospital Receivables

DCH needs to improve its internal control to help ensure that inpatient hospital receivables are collected, that amounts not collected are referred to the Department of Treasury, and that uncollectible amounts are properly written off.

Because of these internal control weaknesses, DCH was not in compliance with DMB requirements for controls over receivables related to the collecting, recording, and referring of uncollectible amounts to the Department of Treasury. As a result, DCH's inpatient hospital receivables were understated and expenditures were overstated by $12.8 million for the fiscal year ended September 30, 2000. Delays in the collection of receivables and the lack of collection of collectible receivables are unnecessary drains on State resources.

DMB Administrative Guide procedure 1210.27 requires departments to maintain adequate control procedures to ensure that receivables are collected and to maintain procedures to provide evaluation of whether receivables are being accurately measured. Also, DMB Administrative Guide policy 1250 requires departments to refer delinquent accounts to the Department of Treasury for collection.

Inpatient hospital receivables generally occur because payments to the hospitals are made based on estimates rather than actual claims and actual claims may be less than payments made. The hospital and DCH may make adjustments to each

of the hospital's cost year claims until final cost year settlement, which generally occurs 5 to 10 years after the end of a cost year. Receivables for a hospital's cost year are revised for any additional claims approved for the cost year until final cost settlement. The revised receivables are entered into the Medicaid payment system and subsequently automatically deducted from routine Medicaid payments. If there are no Medicaid payments from which to deduct the receivables, DCH does not attempt collection until after final cost settlement, several years later.

As of December 2000, DCH confirmed that the $25.2 million recorded for inpatient hospital receivables as of September 30, 2000 was correct and properly valued. However, in March 2001, DCH determined that $19.5 million of the $25.2 million inpatient hospital receivables recorded as of September 30, 2000 were uncollectible and wrote them off. Our review of inpatient hospital receivables disclosed:

a. DCH did not actively pursue inpatient hospital receivables from providers that were no longer filing claims. DCH made no attempts to collect the receivable balance for one provider totaling $12.8 million established in January 2000 as a result of prior year cost settlements and reconciliation of MIPs to actual claims. DCH informed us that it, historically, has not engaged in collection efforts for these types of outstanding receivables until final settlement with the providers, several years later. This is because DCH could deduct any unpaid receivables from the large amounts it pays in Medicaid claims each year to the inpatient hospitals. However, DCH loses its ability to deduct the receivables from Medicaid claims when hospitals are sold, go bankrupt, or stop serving Medicaid patients. DCH does not have a practice of trying to actively pursue collection from inpatient hospitals that no longer file Medicaid claims.

b. DCH did not refer inpatient hospital receivables of $10.9 million that were delinquent for more than six months as of September 30, 2000 to the Department of Treasury for collection. DMB Administrative Guide policy 1250 requires State agencies to refer delinquent accounts to the Department of Treasury after collection efforts have been made at the agency for a six-month period. We were informed by DCH that no referrals had been made to the Department of Treasury for delinquent inpatient hospital receivables since DCH began logging referrals in November 1996. Prompt referral is important to initiate collection activity before the six-year statute of limitations on

collection has expired and before the hospital becomes bankrupt or liquidates its assets.

c. DCH did not write off uncollectible inpatient hospital receivables in a timely manner. We noted that 31 inpatient hospital receivables with a balance of $6.9 million considered uncollectible by DCH and having no account activity within the past six years still appeared on the September 21, 2000 debit credit balance report. Sixteen of the 31, with a balance of $2.0 million, had no activity in the past 10 years. Accounts more than six years after final settlement should be written off because of the six-year statutory time limit for collection.

d. DCH did not properly include all receivables considered collectible in the year-end Medicaid accrual. DCH wrote off a $12.8 million receivable to one provider during the fiscal year 1999-2000 year-end closing process, citing uncollectibility. However, in December 2000 and again in March 2001, DCH staff reported this receivable to be collectible. Although this provider was no longer serving Medicaid patients, DCH later collected portions of the receivable by deducting amounts from Medicaid claims that were still being submitted from prior periods that totaled $158,000 as of August 2001. Also, DCH could collect from any amount owed this provider from its four cost years that had not been cost settled as of October 2001. Further, DCH had not yet attempted to collect this receivable from the parent company of this provider, which is a going concern in Michigan and operates several other hospitals in Michigan that are Medicaid providers.

   Typically, receivables would not be written off until collection has been attempted from all sources. As a result of not exhausting various methods to collect the receivables before writing them off, receivables totaling $12.8 million were not properly included in DCH's Medicaid accrual for the fiscal year ended September 30, 2000.

RECOMMENDATION

We recommend that DCH improve its internal control to help ensure that inpatient hospital receivables are collected, that amounts not collected are referred to the Department of Treasury, and that uncollectible amounts are properly written off.

FINDING (390105)

5. Revenue Recognition

DCH did not recognize revenue received from civil penalty fines in accordance with generally accepted accounting principles (GAAP), as required by Section 18.1494 of the *Michigan Compiled Laws* .

Sections 1600.106 and N50.111 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), provide that revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current period and that the timing of the revenue recognition is not affected by purpose restrictions.

DCH receives revenue from OBRA (Omnibus Budget Reconciliation Act of 1997) civil penalty fines and is required to expend the revenue in accordance with federal regulations. These fines are collected from nursing homes for violation of federal requirements and must be spent for the protection of the health and property of residents of nursing homes. During fiscal years 2000-01 and 1999-2000, DCH recognized revenue related to OBRA civil penalty fines based on the amount expended during the fiscal year and recorded unspent OBRA civil penalty fines as deferred revenue at fiscal year-end. However, revenue should have been recognized to the extent that it was received (measurable and available) as required by GAAP. DCH's appropriations acts for fiscal years 2000-01 and 1999-2000 provided authority to carry over any unexpended amounts and expend them in accordance with federal regulations in subsequent fiscal years.

Miscellaneous revenue was overstated $115,900 and understated $179,100 in fiscal years 2000-01 and 1999-2000, respectively. Also, deferred revenue was overstated and restricted revenue carry-overs were understated by $2.0 million and $2.1 million as of September 30, 2001 and September 30, 2000, respectively.

RECOMMENDATION

We recommend that DCH recognize revenue received from civil penalty fines in accordance with GAAP, as required by Section 18.1494 of the *Michigan Compiled Laws* .

FINDING (390106)

6. Cash Management

DCH needs to improve internal control over its cash management procedures. We estimated that the State lost approximately $857,000 in interest income during our audit period because of exceptions related to the timeliness of cash draws.

The federal Cash Management Improvement Act (CMIA) of 1990 was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State entered into an agreement with the U.S. Department of Treasury to implement CMIA for selected major federal programs, in accordance with federal regulation 31 *CFR* 205. Compliance with CMIA requires an annual review of actual cash draws compared with prescribed drawdowns and a settlement of interest due from or to the U.S. Department of Treasury. Also, Section 18.1395(5) of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1210.6 require State departments to obtain federal funds as soon as they become available.

During our audit period, DCH had three major federal programs subject to CMIA provisions for drawing federal funds. Our review of DCH's requests for federal funds and the reporting of cash draws disclosed:

a. DCH requests to draw federal funds were sometimes not made on a timely basis. DCH requested federal funds late 5 times for the Block Grants for Prevention and Treatment of Substance Abuse Program and late 5 times for the Medicaid Program. DCH indicated that 9 of the 10 late draws were not requested because the federal funding was not available. Under CMIA rules, the State would be eligible to collect interest from the federal government for cash draws that are requested but not paid on a timely basis. However, DCH must request these cash draws as program expenditures are incurred. Also, DCH's policies and procedures require that the full draw amount be requested as scheduled regardless of the availability of federal funds. We estimate that the State lost interest income of approximately $240,000.

b. DCH requests to draw federal funds sometimes did not follow the CMIA agreements, resulting in underdraws. The draw requests for the Medicaid Program for the period April 13, 2001 through August 3, 2001 were not adjusted for an increased spending level, which resulted in underdraws of $24.0 million. The adjustment for these draws was not made until August 17,

2001. We estimate that the State lost interest income of approximately $206,000 by not requesting the proper draw amount.

c. DCH draw requests for federal funds were not always made. The $18.5 million draw for April 14, 2000 was missed and recovered through a cash-on-hand adjustment. Cash-on-hand adjustments are processed by DCH at the end of each quarter to adjust for overdraws or underdraws. The adjustment was made on August 3, 2000. Using the cash-on-hand adjustment date, we estimate that the State lost interest income of approximately $364,000.

d. DCH did not report all delays in the availability of requested federal funds to the Michigan Department of Treasury for CMIA reporting. The Michigan Department of Treasury uses the departmental reports during the settlement process to determine the amount of interest due from or to the U.S. Department of Treasury. Our review of selected draws disclosed that DCH did not report the delay in the availability of federal funds of approximately $6.3 million for 54 days during fiscal year 2000-01 for the Medicaid Program. We estimate that the State lost interest income of approximately $47,000.

e. DCH did not document the calculation used to determine the monthly draw amounts for the Block Grants for Prevention and Treatment of Substance Abuse for fiscal year 1999-2000. As a result, we could not determine whether the monthly draw amounts were correct.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH IMPROVE INTERNAL CONTROL OVER ITS CASH MANAGEMENT PROCEDURES.

FINDING (390107)

7. Payroll Internal Control

DCH should improve its internal control over the payroll process.

DCH incurred payroll expenditures of approximately $369.8 million and $385.9 million during fiscal years 2000-01 and 1999-2000, respectively. Our review of

DCH's payroll operations disclosed control weaknesses in the data entry and monitoring functions:

a. Eighteen DCH payroll employees, responsible for processing payroll transactions, entered 67 transactions for themselves. Also, 8 of these employees were assigned the duties of a control person, who is responsible for verifying the propriety of transactions as listed on the daily and biweekly transaction reports. In addition, 12 of 24 DCH control employees had passwords that would enable them to enter transactions for themselves (e.g., gross pay adjustments [GPAs]). Because of staffing limitations, DCH often authorized control persons to have data entry capability. As a result, DCH faces a greater risk of improper entries without detection.

   We noted similar findings in our two prior audits. In response to our last audit, DCH concurred and initiated corrective action by distributing a memorandum to payroll employees on September 18, 2000, reminding them that employees are not allowed to enter transactions for themselves and that control employees must not possess data entry capability. However, our review disclosed that 8 employees entered 17 transactions from October 2000 through March 2001 subsequent to DCH's issuance of the memorandum.

b. DCH did not use Human Resources Management Network (HRMN) reports on a regular basis to identify and correct errors in processing payroll transactions.

   The DCH Office of Human Resources (OHR) is responsible for central office payroll and personnel operations and to provide oversight on payroll and personnel operations at DCH's mental health facilities. Our review of DCH's monitoring efforts disclosed that OHR staff did not use two monitoring reports (ZP108 and ZP110) available in HRMN that identify and list payroll and personnel transactions rejected during processing in HRMN. OHR should use these reports as an effective monitoring tool to ensure that processing errors are identified and corrected in a timely manner.

   Also, OHR staff did not use the time record validation (TRV) report to monitor GPAs made to DCH employees. The TRV report provides OHR with a listing of all GPAs processed during a pay period. Although many of the GPAs processed were system generated, OHR should use the TRV report to monitor these adjustments on a regular basis. This monitoring is especially important

because of the control weakness cited in part a., where we noted that several DCH payroll employees have the ability to enter GPAs for themselves. DCH processed GPAs of approximately $7.6 million and $5.6 million for fiscal years 2000-01 and 1999-2000, respectively.

The internal control weaknesses related to payroll operations increased the risk that unauthorized transactions could occur and remain undetected. Although we noted these weaknesses, we did not note any instances of impropriety.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE PAYROLL PROCESS.

FINDING (390108)

8. Hospital Patients' Trust Fund (HPTF) Cut-Off Procedures

DCH's year-end cut-off procedures did not ensure that all HPTF patient trust contributions (additions) and amounts distributed to clients or third parties (deductions) were recorded in the correct fiscal year. Consequently, the additions, deductions, liabilities, and net assets in the HPTF statement of fiduciary net assets as of September 30, 2000 and in the HPTF statement of changes in fiduciary net assets for the fiscal years ended September 30, 2001 and September 30, 2000 were misstated.

GASB Codification Section 1300.102 requires fiduciary funds like HPTF to use the accrual basis of accounting, which recognizes revenues (additions) when earned and expenses (deductions) when a liability is incurred, regardless of the timing of the cash flows.

DCH receives payments on behalf of clients for deposit in HPTF. Clients are required to reimburse the General Fund for the cost of their care based on their ability to pay. Our review of HPTF transactions disclosed two instances in which DCH did not record all patient trust contributions and amounts distributed to clients or third parties in the correct fiscal year.

In the first instance, DCH did not record a $200,600 liability to the General Fund for the cost of care of a client that spanned approximately 10 years. DCH staff

informed us that a liability was not recorded because of a legal claim for the funds. However, the lawsuit was dismissed before the end of the fiscal year and DCH did not record the liability or the related deduction for the fiscal year ended September 30, 2000. DCH subsequently recorded and paid this obligation in fiscal year 2000-01. In the second instance, DCH recorded a patient trust contribution of $29,300 and a liability of $25,400 in fiscal year 1999-2000 rather than in fiscal year 1998-99 when the contribution was earned and the liability was incurred.

As a result of recording these transactions in the wrong fiscal year, DCH understated its additions and overstated its deductions by $29,300 and $175,200, respectively, for the fiscal year ended September 30, 2000 and understated its liabilities and overstated its net assets by $200,600 as of September 30, 2000. Also, DCH overstated its deductions by $200,600 in the fiscal year ended September 30, 2001.

RECOMMENDATION

We recommend that DCH improve its year-end cut-off procedures to help ensure that all HPTF patient trust contributions and amounts distributed to clients or third parties are recorded in the correct fiscal year.

The status of the findings related to the financial schedules and financial statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (390109)

9. MIChild Eligibility Determination

U.S. Department of Health and Human Services	*CFDA*: 93.767 State Children's Insurance Program (CHIP)
Award Number: 05-9805MI5021 05-9905MI5021 05-0005MI5019 05-0105MI5R21	Award Period: 10/01/97 - 09/30/98 10/01/98 - 09/30/99 10/01/99 - 09/30/00 10/01/00 - 09/30/01
	Questioned Costs: $218,708

U.S. Department of Health and Human Services	*CFDA*: 93.778 Medical Assistance Program (Medicaid)
Award Number: 05-0005MI5028 05-0105MI5028	Award Period: 10/01/99 - 09/30/00 10/01/00 - 09/30/01
	Questioned Costs: ($175,442)

DCH enrolled children in the State Children's Insurance (MIChild) Program without determining that they were eligible in accordance with federal regulations.

Federal regulations and Michigan's MIChild State Plan require that an eligibility determination based on age and income be made prior to enrollment in the MIChild Program. The determination of eligibility is complex because the MIChild Program consists of two sections: the MIChild - regular program, which provides insurance coverage for children in low-income families who do not qualify for the Medicaid Program, and the MIChild - Medicaid expansion program, which provides insurance coverage for children between the ages of 16 to 18 years who are eligible for the Medicaid Program. Also, children not eligible for the MIChild Program may be eligible for the Medicaid Healthy Kids Program, which provides insurance coverage for children between the ages of 0 to 15 years.

Our review of DCH's procedures for determining eligibility for the MIChild Program disclosed:

a. DCH had an average of 19,532 children enrolled in the MIChild Program during fiscal year 2000-01. We reviewed case file documentation for 39 of these children and determined that 2 (5%) were not eligible for program services. Our review further disclosed that 1 of these children was eligible for and could have been enrolled in the Medicaid Healthy Kids Program.

b. DCH had an average of 12,933 children enrolled in the MIChild Program during fiscal year 1999-2000. We reviewed case file documentation for 36 of these children and determined that 3 (8%) were not eligible for program services. These children were eligible for and could have been enrolled in the Medicaid Healthy Kids Program.

Our review also disclosed that, during December 1999, DCH enrolled 1,066 children into the MIChild - regular program without processing their applications to appropriately determine MIChild Program eligibility. DCH reported that this was done to eliminate a large backlog of unprocessed applications and to help ensure that children did not go without services because of delays in processing applications. After 12 months, DCH performed a re-determination of eligibility of these children and discovered that only 513 (48%) of the 1,066 children were eligible for the MIChild Program, 298 (28%) were eligible for the Medicaid Healthy Kids Program, and 255 (24%) could not be re-determined for eligibility because their families failed to submit their re-determination application.

Based on our review, we estimated that DCH charged the MIChild Program $218,708 for services provided to children who were not eligible for MIChild Program services. However, we also estimated that DCH could have charged $175,442 of this amount to the Medicaid Program because some of the children who were ineligible for the MIChild Program were eligible for the Medicaid Program. As required by OMB Circular A-133, we will report these amounts as questioned costs.

RECOMMENDATION

We recommend that DCH discontinue enrolling children in the MIChild Program without determining that they are eligible in accordance with federal regulations.

FINDING (390110)

10. Incarcerated Medicaid Recipients

U.S. Department of Health and Human Services	*CFDA*: 93.778 Medical Assistance Program (Medicaid)
Award Number: 5-0005MI5028 5-0105MI5028	Award Period: 10/01/99 - 09/30/00 10/01/00 - 09/30/01
	Questioned Costs: $16,645

DCH had not established control procedures to identify and deactivate all incarcerated Medicaid recipients. Federal regulations prohibit prisoners from receiving Medicaid benefits.

In response to our performance and financial related audit of the Medicaid Management Information System, DCH established a process to identify and deactivate incarcerated Medicaid recipients. This process included performing a quarterly automated file match between DCH Medicaid recipient records and Department of Corrections (DOC) incarcerated individuals' records. However, the automated file match was performed on records of only those Medicaid recipients who were eligible for both Medicaid benefits and Food Stamp benefits. We noted that, as of September 30, 2001, only 31% of Medicaid recipients were also receiving Food Stamp benefits. As a result, approximately 800,000 Medicaid recipients were not checked to see if they were also incarcerated.

Our comparison of automated Medicaid recipient files to an automated file of recipients incarcerated by DOC disclosed about 1,100 recipients who were incarcerated that received approximately $2.0 million of Medicaid benefits (federal portion $1.1 million) sometime during the period October 1, 1999 through April 30, 2001. However, this comparison would have included Medicaid benefits paid for periods, if any, for those recipients who had been released from custody. A manual review of 20 of the 1,100 recipients disclosed that 18 (90%) of the 20 received Medicaid benefits totaling $29,628 during periods of incarceration. The other 2 recipients received Medicaid benefits only during periods they were released from custody. As required by OMB Circular A-133, we will report the federal share of $16,645 of the benefits paid to ineligible recipients as questioned costs.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH ESTABLISH CONTROL PROCEDURES TO IDENTIFY AND DEACTIVATE ALL INCARCERATED MEDICAID RECIPIENTS.

FINDING (390111)

11. Internal Control Over Financial Reporting

U.S. Department of Health and Human Services	*CFDA*: 93.778 Medical Assistance Program (Medicaid)
Award Number: 5-0005MI5028 5-0105MI5028	Award Period: 10/01/99 - 09/30/00 10/01/00 - 09/30/01
	Questioned Costs: Unknown

This finding is included in Section II of the schedule of findings and questioned costs (390101).

FINDING (390112)

12. Medicaid Claims and Payment Data

U.S. Department of Health and Human Services	*CFDA*: 93.778 Medical Assistance Program (Medicaid)
Award Number: 5-0005MI5028 5-0105MI5028	Award Period: 10/01/99 - 09/30/00 10/01/00 - 09/30/01
	Questioned Costs: $0

This finding is included in Section II of the schedule of findings and questioned costs (390102).

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH

Summary Schedule of Prior Audit Findings

As of September 30, 2001

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period:	October 1, 1997 through September 30, 1999
Finding Number:	399901
Finding Title:	Recording of Revenues
Finding:	The Department of Community Health (DCH) needs to improve its internal control to ensure that revenues are properly recorded.
Comments:	DCH complied with the corresponding recommendation.

DCH issued an instructional memorandum to pertinent accounting staff clarifying all year-end closing procedures and emphasizing internal control issues to ensure that revenues are correctly recorded. All journal vouchers related to year-end cut-off transactions were thoroughly reviewed and approved by the responsible accounting supervisor to ensure that revenues were properly classified. In addition, DCH implemented a post review process of entries made during year-end closing.

Audit Period:	October 1, 1997 through September 30, 1999
Finding Number:	399904
Finding Title:	Use of State Funds
Finding:	DCH did not spend federal funds before State funds as required by State statute.
Comments:	DCH complied with the corresponding recommendation.

The DCH Bureau of Finance and the DCH Budget and Contracts Division have revised their closing procedures as necessary to ensure compliance.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 399906

Finding Title: Encumbrances

Finding: DCH needs to improve its internal control to ensure that encumbrances are established in accordance with generally accepted accounting principles (GAAP) and the Department of Management and Budget (DMB) Administrative Guide.

Comments: DCH complied with the corresponding recommendation.

DCH accounting staff involved in accounts payable and encumbrances discussed detailed written instructions from DMB's Year-End Closing Guide and the DMB Administrative Guide at a pre-closing training session held in September 2000.

The DCH Office of Audit, at the request of the DCH Bureau of Finance, conducted a review of accounts payable and encumbrances subsequent to year-end closing for fiscal year 1999-2000 to determine compliance with applicable policies and procedures. The Bureau of Finance has requested a similar review for fiscal year 2000-01.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 399907

Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: DCH needs to improve its internal control to ensure the accurate preparation of the SEFA.

Comments: DCH complied with the corresponding recommendation.

DCH issued written guidelines for staff to follow in preparing the SEFA, with special emphasis given to the proper coding for the few nonroutine year-end only accounting entries that have caused errors in the past. Standard Management Information Database (MIDB) queries have been developed to aid in future reconciliations. In addition, internal training sessions were conducted to ensure that staff were properly trained to prepare their components of the SEFAs.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399908
Finding Title: Internal Auditor Functions
Finding: DCH could improve internal control over its financial operations by requiring the internal auditor to give a higher priority to the internal audit functions specified in Section 18.1486(4) of the *Michigan Compiled Laws*.
Comments: DCH complied with the corresponding recommendation.

The DCH Office of Audit has one section that has been assigned duties consistent with the requirements of the *Michigan Compiled Laws*. This section has begun to perform audits of financial activities and operations, and future activities that comply with these requirements will be scheduled through the annual audit planning process.

Audit Findings Not Corrected or Partially Corrected

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399902
Finding Title: Medicaid Accrual
Finding: DCH needs to improve internal control over its monitoring procedures used to evaluate the accuracy of the Medicaid accruals and to assess and re-evaluate the effectiveness of the accrual methodologies.
Comments: DCH has taken steps to comply with the corresponding recommendation.

DCH continues to refine and develop monitoring procedures to ensure that calculations used to estimate accruals for all programs are free of material misstatement and based on the most accurate and reliable data available. DCH is implementing a six- and nine-month tracking memorandum that will monitor the accuracy of the accrual estimates.

DCH is developing accrual methodology documentation that will detail the data, reports, and formulas used in the calculations, as

well as the areas within DCH that are responsible for creating the methodology, calculation, and tracking of the accrual.

DCH has reviewed both the inpatient hospital accrual and the provider pipeline accrual and has determined that updated methodologies need to be implemented as part of the fiscal year 2000-01 closing process.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399903
Finding Title: Cash Management
Finding: DCH needs to improve internal control over its cash management procedures.
Comments: DCH has taken steps to comply with the corresponding recommendation.

DCH has developed and implemented written procedures for each program covered under the federal Cash Management Improvement Act (CMIA) agreement. These procedures require submission, to the Department of Treasury, of a schedule that compares required draws to actual draws.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399905
Finding Title: Personnel and Payroll Internal Control
Finding: DCH needs to improve its internal control over the personnel and payroll process.
Comments: DCH has taken steps to comply with the corresponding recommendation.

The DCH Office of Human Resources monitors and strives to minimize instances in which employees enter transactions for themselves. Employees will not be permitted to enter transactions for themselves that have monetary implications, and the reasons for all other instances will be fully documented.

DCH has reemphasized and disseminated instructional directives as necessary to ensure that access to the system is deleted for users who no longer work in personnel units, that the biweekly transactions are consistently reconciled, and that employees' histories are updated on the system as necessary.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399909
Finding Title: School Based Outreach Services
Finding: The U.S. Health Care Financing Administration (HCFA) has concluded that DCH was not in compliance with federal regulations for the School Based Outreach Services Program.
Comments: DCH has reached a settlement with the federal Centers for Medicare and Medicaid Services (formerly HCFA) for the federal disallowance related to the Medicaid Program's school based outreach services. This settlement provides for DCH to perform cost studies to support billings for school based outreach services.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399910
Finding Title: Home Health Care
Finding: DCH's monitoring program was not adequate to reasonably ensure that providers of home health care services provided quality services to clients and that claims submitted by providers complied with program requirements.

The Family Independence Agency (FIA) performed case management services for DCH for the Home Help Program. DCH did not ensure that FIA adhered to established procedures for processing payments and managing Home Help Program cases.

Comments: DCH complied with the corresponding recommendations.

DCH has developed and implemented a post-payment review process to ensure that home health care services are being paid in accordance with program requirements.

FIA committed to taking corrective action to ensure that local county offices adhered to established procedures for processing payments and managing Home Help Program cases. In addition, the revised automated workload management system scheduled for implementation by FIA in February 2002 will have an edit requiring review of provider logs prior to permitting payment processing.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399911
Finding Title: Personnel-Payroll Cost Distributions
Finding: DCH's internal control did not ensure that payroll costs met federal requirements related to documentation of time distributions for payroll charges to federal programs.
Comments: DCH complied with the corresponding recommendation.

DCH section managers were issued a directive reminding them that certifications cannot exceed a six-month period. Starting with fiscal year 2000-01, the DCH Office of Services to the Aging implemented procedures to adequately document and account for the time spent and charged by employees who work on more than one federal program.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399912
Finding Title: Special Adjustor Payments
Finding: DCH did not always use the methodology approved in the Medicaid State Plan to calculate special adjustor payments.
Comments: DCH complied with the corresponding recommendation.

DCH established review procedures to ensure the accuracy of any special adjustor payments calculated jointly between DCH and the DMB Office of Health and Human Services and Economic Development. The calculations will be approved in writing by an appropriate authority within DCH prior to drawing down the Medicaid federal match.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399914
Finding Title: Maternal and Child Health Services Block Grant to the States
Finding: DCH's control procedures did not ensure that paid claims for the Children's Special Health Care Services (CSHCS) Program related to a child's qualifying condition and were issued to only authorized providers.
Comments: DCH complied with the corresponding recommendation.

DCH implemented a post-payment review process to ensure, on a sample basis, that claims are being paid in accordance with program requirements. System edits are currently in place and set at an acceptable threshold to minimize instances of payments being made to unauthorized providers.

Audit Findings Not Corrected or Partially Corrected

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 399913
Finding Title: Medicaid Management Information System (MMIS)
Finding: DCH had not established control procedures to identify and inactivate incarcerated Medicaid recipients.

DCH did not establish and maintain a program for conducting periodic risk assessments of MMIS.
Comments: DCH has taken steps to comply with the corresponding recommendations.

FIA is conducting a quarterly tape match with the Department of Corrections to identify inappropriate issuance of food stamps. If a

match is found, eligibility for both food stamps and Medicaid is terminated. DCH is continuing to pursue other means to independently identify incarcerated Medicaid recipients.

DCH completed a risk assessment of MMIS.

DEPARTMENT OF COMMUNITY HEALTH

Corrective Action Plan

As of June 7, 2002

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 390101

Finding Title: Internal Control Over Financial Reporting

Management Views: The Department of Community Health (DCH) agrees with the recommendation, generally agrees with parts a., b., and d., but only partially agrees with part c. of the finding. DCH agrees that there are problems related to certain costs reported on the financial status reports (FSRs) by CMHSPs as cited in part c. of the finding. However, DCH does not necessarily agree that the deficiencies could have been discovered or prevented by more thorough monitoring. FSRs submitted by the CMHSPs are subjected to a post-payment review process. Audits of the filed FSRs are routinely scheduled and conducted by staff from the DCH Office of Audit. All but one of the exceptions cited in the finding related to exceptions discovered through the DCH audit process. Many of the DCH audit findings represent exceptions common to all of the CMHSPs and all audited CMHSPs have filed appeals. Revising the FSRs to more specifically identify certain categories of costs, such as depreciation, may be useful to assess risk and to determine which CMHSP needs to be audited; however, this type of revision will not impact how DCH reimburses the CMHSPs and how the final liability is determined through the settlement process.

Corrective Action: For part a. of the finding, the DCH Bureau of Finance will continue to emphasize and improve its

monitoring and review activities over financial transactions. In addition, DCH anticipates the material weakness identified in the fiscal year 1999-2000 biennial assessment will be addressed when it completes the fiscal year 2001-02 assessment.

The Bureau of Finance, and the Accounting Division in particular, has made significant progress in implementing monitoring procedures to improve its internal control over financial reporting. Most of the accounting transactions needing adjustment (identified in part b. of the finding) that could have been detected through better monitoring or review procedures were related to the Medicaid inpatient hospital program. DCH will continue to develop and improve its procedures over this program to ensure that all financial transactions are properly reviewed and monitored. DCH is currently reviewing its procedures and methods for accessing and storing data, which should significantly reduce or eliminate reliance on manual data. This should greatly enhance DCH's ability to review and effectively monitor these transactions.

For part c. of the finding, once the major issues common to all of the CMHSPs have been adjudicated, DCH will consider revising the FSRs to more specifically identify certain categories of costs. DCH will utilize this additional information as part of its risk assessment process to determine which CMHSPs to audit.

DCH will revise the reporting requirements for the HIV Care Formula Grants Program to separately identify and report administrative costs to ensure that they do not exceed the administrative cost limitations as described in part d. of the finding. For new awards,

DCH will also expand its review to ensure that limitations on administrative costs are accounted for in the coding structure.

Anticipated Completion Date: Ongoing

Contact Person Responsible for Corrective Action:
Part a. - David Viele/Jim Brandell
Part b. - Jim Brandell/Lyle Ross
Part c. - Irene Kazieczko
Part d. - Mary Jane Russell/Lyle Ross/Debra Szwejda

Finding Number: 390102
Finding Title: Medicaid Claims and Payment Data

Management Views: DCH agrees with the finding and recommendation and is committed to making the necessary procedural and programmatic changes to ensure that hospital inpatient claims and payments are accurate.

Corrective Action: DCH has taken appropriate measures to correct the finding described in part c. New procedures for calculating capital interim payments (CIPs) were developed and implemented for providers with fiscal years ended on and after June 30, 2000. This new methodology tracks and reduces the CIPs and Medicaid interim payments (MIPs) based on hospital-filed quarterly reports showing fee-for-service and managed care shifts in utilization. In addition, the large influx of clients from fee-for-service to managed care has largely been completed. Using old fee-for-service medical claims to set CIPs and MIPs in the current environment would no longer result in large overpayments to providers.

For parts a., b., and c., DCH, in conjunction with the new Department of Information Technology, will

pursue and implement system changes that will address the system related control problems identified in the finding. Although DCH has already increased its production history file capacity, DCH hopes to significantly reduce the amount of time it takes to complete the cost settlement process. This should significantly shorten the amount of time that claims need to be accessible in a controlled production environment. DCH is exploring programmatic and Medicaid Management Information System (MMIS) changes that will significantly reduce the time it takes to complete the cost settlement process and to eliminate the current practice of having to maintain ancillary rate tables that are not maintained in a controlled production environment. DCH, in conjunction with systems staff from the new Department of Information Technology, will develop formal procedures with appropriate controls that make use of control totals or other compensating controls. DCH has already made some formal procedural changes in terms of how it requests and receives paid claims reports from MMIS. DCH will continue to review and develop these procedures to ensure that the claims information is accurately produced in a format needed for cost settlement purposes.

In addition, the gross adjustment system will be interfaced with MMIS, eliminating the need to re-key payment information from one system to another. This should eliminate many of the errors described in the finding.

DCH intends to change its policy to complete final settlement calculations using the providers' filed cost reports. This would significantly shorten the time frame required to complete final settlements and

	should help ensure that the data used in the accrual calculations is accurate.
Anticipated Completion Date:	System Changes - Ongoing Policy Change to Filed Cost Reports - Providers with cost reporting periods beginning on or after October 1, 2002
Contact Person Responsible for Corrective Action:	System Changes - Jim Brandell/Brenda Fezatte/Ken Seyka (Department of Information Technology) Policy Changes - Ed Kemp/Brenda Fezatte

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Finding Number:	390103
Finding Title:	Inpatient Hospital Claims Liability
Management Views:	DCH agrees with the finding and recommendation.
Corrective Action:	DCH revised its procedures and based its estimate of the liability for fiscal year 2000-01 on a three-year average of claims processed. An updated historical database was created to determine the amount of the current year accrual as well as to adjust the accrual for prior years. In addition, the amounts used for the accrual were based on updated claims information from MMIS. The estimate of the liability for inpatient hospital expenditures using the new methodology provides a more accurate reflection of the actual activity in the subsequent fiscal years. This methodology was included in the year-end accrual materials approved by the Office of Financial Management, Department of Management and Budget (DMB).
Anticipated Completion Date:	Completed

Contact Person Responsible for Corrective Action:	Jim Brandell/Jane Alexander

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Finding Number:	390104
Finding Title:	Inpatient Hospital Receivables
Management Views:	DCH agrees with the finding and recommendation.
Corrective Action:	DCH has started to review all balances posted to the debit/credit balance report (MQ774) to determine if they are collectible. Collection efforts will commence immediately for accounts determined to be collectible and uncollectible amounts will be written off. DCH (the Division of Hospital and Health Plan Reimbursement) will develop written policies and procedures related to the establishment and collection of inpatient hospital receivables to ensure that collection efforts are timely. These procedures will cover instate hospitals that are reimbursed based on cost. The procedures will specifically address amounts owed from active providers, providers that have filed for bankruptcy, and providers that have closed or discontinued participation in the Medicaid Program. The procedures will address circumstances in which the collections are referred to the DCH Accounting Division for further action. The DCH Accounting Division will then develop and implement the process for referring uncollectible accounts to the Department of Treasury, consistent with the DMB Administrative Guide requirements. Finally, the Division of Hospital and Health Plan Reimbursement will initiate measures to change the Medicaid Program's reimbursement policies with respect to the entire cost settlement process. The

changes being contemplated will eliminate the reliance on audits conducted by the Medicare Intermediary and will require an amendment to the current Medicaid State Plan. These changes will dramatically reduce the amount of time it takes to compute final settlements for inpatient hospital providers. Eliminating the requirement of using Medicare audits of inpatient hospital providers to compute final settlements will enable the Division to more efficiently and accurately determine the liability of inpatient hospital providers.

Anticipated Completion Date:

Review of Outstanding MQ774 Balances - July 31, 2002
Policies and Procedures Development - July 31, 2002
Program and State Plan Change - Providers with fiscal years beginning on or after October 1, 2002

Contact Person Responsible for Corrective Action:

MQ774 - Brenda Fezatte/Jim Brandell/Jane Alexander
Policies and Procedures - Brenda Fezatte/Jim Brandell
Program Changes - Ed Kemp/Brenda Fezatte

Finding Number: 390105
Finding Title: Revenue Recognition

Management Views: DCH agrees with the finding and recommendation.

Corrective Action: DCH has revised its procedures to ensure that revenue collected from civil monetary fines is recorded as cash revenue when received rather than as deferred revenue. DCH will recognize the approximately $2.1 million deferred revenue balance in fiscal year 2001-02 as earned in a newly designated private fund. Any unexpended penalty money will carry forward to the following year.

Anticipated Completion Date: Completed

Contact Person Responsible for Corrective Action: Lisa Smyth

Finding Number: 390106

Finding Title: Cash Management

Management Views: DCH agrees with the finding and recommendation.

Corrective Action: DCH will implement measures to ensure that it complies with the federal Cash Management Improvement Act (CMIA) of 1990, *Michigan Compiled Laws*, and DMB Administrative Guide procedures. Written procedures were developed in response to a finding from the previous financial audit to ensure that DCH met all of the above requirements. DCH has clarified those procedures to address the CMIA grant procedures for instances in which there are insufficient funds available for the cash draw.

To improve the internal control over this process, DCH will initiate measures to ensure that staff are cross-trained, staff with backup responsibilities will be required to perform the functions more frequently, supervisory monitoring of the process will be expanded, an automatic reminder system will be implemented to ensure that draws are timely, and available federal data on the Payment Management System will be utilized more efficiently to improve reporting activities to the Department of Treasury.

Anticipated Completion Date: July 31, 2002

Contact Person Responsible for Corrective Action:	Jim Brandell/Lyle Ross

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Finding Number:	390107
Finding Title:	Payroll Internal Control
Management Views:	DCH agrees with the finding and recommendation and will continue to improve its internal control over the payroll process.
Corrective Action:	DCH agrees in principle that effective internal control would prohibit employees from having the capability to enter transactions for themselves, particularly transactions with the potential for personal gain; however, in certain circumstances and situations, it may be necessary to permit payroll employees to input some transactions for themselves. DCH will continue to monitor this situation and make every effort to ensure that these situations are kept to a minimum and will explore the possibility of implementing other compensating controls over the input process. DCH will make every effort to limit these situations to transactions for which there is no potential for personal gain to the employee, such as situations requiring a mass update or batch recoding of an entire work unit. DCH has taken steps to ensure that reports produced from the Human Resources Management Network (HRMN) are used as monitoring tools on a regular basis to identify and correct errors in processing payroll transactions.
Anticipated Completion Date:	Ongoing and completed

Contact Person Responsible for Corrective Action:	Tom Adams

Finding Number:	390108
Finding Title:	Hospital Patients' Trust Fund (HPTF) Cut-Off Procedures
Management Views:	DCH agrees with the finding and recommendation.
Corrective Action:	DCH will revise its procedures to include a reminder in the year-end closing schedule that requires the hospitals/centers to review the activity in patient trust funds to ensure that transactions are identified and recorded in the proper year. DCH Accounting Guideline Number 18, Patient Accounting System (PAS), will also be revised to include instructions on year-end accruals. The revision will include instructions requiring facilities to review all trust fund activity to ensure that all revenues, expenses, and transfers to the operating account occur on a timely basis and in the proper fiscal year.
Anticipated Completion Date:	August 31, 2002
Contact Person Responsible for Corrective Action:	Jim Brandell/Zana Easton

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FINDINGS RELATED TO FEDERAL AWARDS

Finding Number:	390109
Finding Title:	MIChild Eligibility Determination
Management Views:	DCH agrees with the finding and recommendation.

Corrective Action:	DCH has revised its procedures to ensure that children will not be enrolled in the MIChild Program without first determining their eligibility. As described in the finding, children were enrolled in the program without first determining their eligibility in order to eliminate a large backlog of applications received during fiscal year 1999-2000. This was an isolated situation and DCH chose, on a one-time basis, to enroll each applicant to eliminate the backlog and to ensure that eligible children would receive necessary services. Maximus, the agency under contract with DCH to conduct eligibility determinations, has met the standard of promptness since that time. To ensure that a new backlog does not develop, DCH requires the contractor to report processing times on a weekly basis. In addition, DCH has revised the application process to make it easier for families to provide the necessary information for an eligibility determination to be made within the standard of promptness. DCH has also instituted audits of Maximus' eligibility determinations to ensure that applications are being reviewed within the standard of promptness and that DCH policy is being adhered to.
Anticipated Completion Date:	Completed
Contact Person Responsible for Corrective Action:	Robert Stampfly

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Finding Number:	390110
Finding Title:	Incarcerated Medicaid Recipients
Management Views:	DCH agrees with the finding and recommendation and is committed to developing control procedures that will

	identify and deactivate all incarcerated Medicaid recipients.
Corrective Action:	DCH will implement an automated process to identify all incarcerated Medicaid recipients. Once verified, the individuals' eligibility will be terminated. This information will then be forwarded to the Family Independence Agency to assess whether eligibility should be terminated for any of its program recipients.
Anticipated Completion Date:	As soon as possible
Contact Person Responsible for Corrective Action:	Ken Seyka (Department of Information Technology) Robert Stampfly

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Finding Number:	390111
Finding Title:	Internal Control Over Financial Reporting

See Finding 390101 with the findings related to the financial schedules and financial statements.

Finding Number:	390112
Finding Title:	Medicaid Claims and Payment Data

See Finding 390102 with the findings related to the financial schedules and financial statements.

Glossary of Acronyms and Terms

AIDS	acquired immune deficiency syndrome.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*
CIP	capital interim payment.
CMHSP	community mental health service program.
CMIA	federal Cash Management Improvement Act.
CMS	federal Centers for Medicare and Medicaid Services (formerly HCFA).
DCH	Department of Community Health.
DMB	Department of Management and Budget.
DOC	Department of Corrections.
FIA	Family Independence Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FSR	financial status report.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.

GPA	gross pay adjustment.
HCFA	U.S. Health Care Financing Administration.
HHS	U.S. Department of Health and Human Services.
HIV	human immunodeficiency virus.
HPTF	Hospital Patients' Trust Fund.
HRMN	Human Resources Management Network.
IBNR	incurred but not reported.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MIChild Program	State Children's Insurance Program.
MIP	Medicaid interim payment.
MMIS	Medicaid Management Information System.
OBRA	Omnibus Budget Reconciliation Act of 1997.
OHR	Office of Human Resources, Department of Community Health.
OMB	U.S. Office of Management and Budget
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that,

	in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SEFA	schedule of expenditures of federal awards.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
STD	sexually transmitted disease.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
TB	tuberculosis.
TRV	time record validation.
TSCA	Toxic Substances Control Act.

unqualified opinion

An auditor's opinion in which the auditor states that:

a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

WIC

Special Supplemental Nutrition Program for Women, Infants, and Children.